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GOVERNOR

STATE OF MICHIGAN
OFFICE OF THE GOVERNOR
LANSING

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SPECIAL MESSAGE TO THE MICHIGAN LEGISLATURE

PROTECTION OF ECONOMIC DEVELOPMENT EFFORTS JEOPARDIZED BY PROPOSED REPEAL OF THE SINGLE BUSINESS TAX

To the Members of the Michigan Legislature:

Last week, an initiative petition seeking to repeal the Single Business Tax Act effective December 31, 2007 was filed with the Department of State. If the Board of State Canvassers determines that the initiative petition submitted includes the signatures of a sufficient number of registered electors, the proposed repeal will be presented to you for enactment without change or amendment. If not enacted within 40 days, the proposed repeal would be submitted to Michigan voters for approval or rejection on November 7, 2006. While the initiative petition provides for the repeal of the Single Business Tax, no provision is made for replacing the nearly \$2 billion in business tax revenue generated annually by the tax to support important services for Michigan families, including education, healthcare, and public safety.

In their effort to eliminate the Single Business Tax, the proponents of the initiative irresponsibly failed to address the many economic development and job creation incentives included within Michigan's current business tax structure and the existing commitments made to businesses that have relocated or expanded in Michigan. This is negatively impacting economic development and job creation in Michigan. As I indicated in a March 31, 2006 message to the House of Representatives, repealing the Single Business Tax without a replacement business tax in place casts a cloud of uncertainty over Michigan's business climate. Job providers considering investment or expansion in Michigan are unable to estimate what their tax obligations may be without a replacement tax or substantially modified Single Business Tax in place. Uncertainty about taxes is a powerful disincentive to the new investment and job creation that Michigan needs. That is why I have repeatedly stressed the importance of acting now to determine just what will replace the Single Business Tax and the nearly \$2 billion it generates each year.

Now, the pending repeal of the Single Business Tax is jeopardizing the effectiveness of important economic development tools that Michigan uses to: compete against other states and countries for jobs; redevelop former industrial and other brownfield sites for productive new use; preserve and restore historic assets for redevelopment; attract new development and jobs to areas throughout Michigan in need of development; and remain a productive partner in key local economic development projects. Businesses currently considering creating jobs, deciding whether to keep jobs in Michigan, and perhaps most troubling, businesses that have already chosen Michigan in part because of these incentives, have expressed grave concern regarding this uncertainty. Many projects on the drawing board seeking approval this year are now in peril. Financing for many of these projects has been withdrawn or put on hold until this issue is resolved. Job growth and investment in Michigan is being affected. In fact, there are a number of job-creation and community development projects now at risk.

To minimize the negative consequences and uncertainty for the Michigan economy caused by the proposed repeal of the Single Business Tax Act without a replacement and to protect the effectiveness of Michigan's economic development incentives, I urge you to act expeditiously to adopt legislation to:

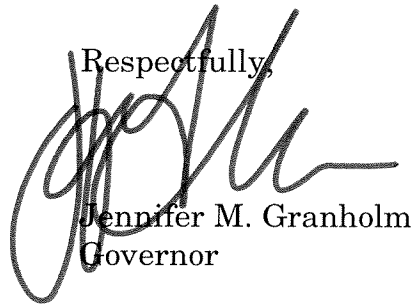
- Enact a new state law guaranteeing that Single Business Tax employment tax credits authorized under an agreement with the Michigan Economic Growth Authority will be preserved under any successor tax enacted to replace the Single Business Tax;
- Amend the Michigan Renaissance Zone Act to assure that a business that has committed to a Renaissance Zone location will be exempt from any business tax replacing the Single Business Tax to the same extent and duration that the business would have qualified had the Single Business Tax remained in effect; and
- Amend the provisions of Sections 38g and 39c of the Single Business Tax Act relating to brownfield and historic preservation tax credits to extend the date for receiving a certificate of completion of eligible investment allowing a taxpayer to claim a credit on a return for the 2007 tax year.

To assist you in acting quickly to address the negative impact of the proposed repeal of the Single Business Tax and preserve vital economic development and job creation incentives, I have directed the State Treasurer to provide you with proposed language to accomplish these changes before the Legislature reconvenes on Tuesday, June 13, 2006. The Michigan Economic Development Corporation also is available to provide information and answer questions about the important need to make these changes for Michigan's economic development efforts.

Michigan cannot afford to lose any new development project, whether it's the redevelopment of the Book Cadillac Hotel in Detroit or a manufacturing project in West Michigan. I urge you to act with haste to remedy this pressing problem and protect jobs in Michigan.

Finally, while these changes are needed to address the most immediate problems caused by the proposed repeal of the Single Business Tax Act, at a more fundamental level the uncertain business climate only can be addressed by the enactment of a replacement business tax that simplifies business taxes, lowers the rate, broadens the base, and replaces revenue currently generated by the Single Business Tax. I urge you to adopt a replacement tax consistent with these objectives before December 31, 2006.

Respectfully,

A handwritten signature in black ink, appearing to read 'J. Granholm', is written over the printed name and title. The signature is fluid and cursive, with a large loop at the beginning and a long horizontal stroke at the end.

Jennifer M. Granholm
Governor